



Rule Up For Final Action

Proposed Amendments to

WAC 230-40-823

((House-banked card games—)) Financial audits and reviews – House-banking ((required)).

ITEM 12 (a) on the February 13, 2003, Commission Meeting Agenda.

Statutory Authority 9.46.070

Who proposed the rule change?

Staff.

Why is this rule change needed?

The accounting profession has developed three standards that enable Certified Public Accountants to offer a variety of financial statement services to businesses. A brief description of each is on the following page.

Currently, house-banked card rooms with 5 million or more in gross receipts must submit audited financial statements to the Commission. About 15 house-banked card rooms were audited last year. The proposed change would require house-banked card rooms with gross receipts over 3 million to submit audited financial statements to the Commission, while card rooms with gross receipts of 3 million or less would submit reviewed financial statements. If this rule had been in effect in 2002, an additional 58 card rooms would have been required to submit either audited or reviewed financial statements. Following is an breakdown of house-banked card rooms by gross receipts as reported on their quarterly activity reports for the past three years:

Gross Receipts	Number of Licensees For the Year Ending			Average Fees for Services
	2000	2001	2002	
Over \$5 million	15	20	18	Audit \$14,300 to \$17,900
\$4 to \$5 million	6	4	5	Reviews \$ 6,100 to \$10,100
\$3 to \$4 million	9	9	12	Compilation \$ 2,100 to \$ 3,300
Subtotal	30	33	35	
\$2 to \$3 million	4	6	12	
\$1 to \$2 million	12	12	12	
under \$1 million	16	18	17	
	62	69	76	

By requiring all house-banked card rooms to be either audited or reviewed, the business's financial position will be disclosed to Commission staff. These reports will also assist Commission staff in recognizing undisclosed substantial interest holders and loans due to the footnote disclosures that are required as part of an audit or review. It also allows for an independent party to review and test the financial data of the licensees. (The Gambling Commission has 14 Certified Public Accountants (CPA) and 17 Certified Fraud Examiners (CFE); 6 of these staff are both a CPA and CFE.)

Attached Correspondence:

Letter dated December 11, 2003, from Sally Herschlip, Buzz Inn Steakhouse, opposing the rule.

Memo dated December 29, 2003, from Special Agents Terry Westhoff & Tina Griffin to Neal Nunamaker, Agent in Charge.

Notification letters dated February 20, 2003, and April 1, 2003, staff sent to all house-banked card rooms.

Letter dated June 16, 2003, from Clark, Raymond & Company, Certified Public Accountants.

Letter dated August 12, 2003, from Cascade Gaming, LLC, supporting the rule.

Statements against the proposed rule change.

Buzz Inn Steakhouse, Everett Washington.

Which licensees will be directly impacted?

House-banked card room licenses.

What are the potential impacts to the agency?

Staff will re-direct current work of reviewing trial balance sheets to reviewing audited and reviewed financial statements, which are a more reliable, professional document. This is a more efficient use of resources. The Financial Investigations Unit has a plan in place for the analysis of the additional reviewed and audited financial statements and field staff would use this new resource as a risk assessment tool. We don't anticipate hiring additional staff.

Staff recommendation.

Adoption.

Proposed effective date.

March 15, 2004, assuming the rule is adopted at the February 13, 2004, meeting to become effective 31 days from filing.